

**Appendix "A"**

**U.S. Bancorp CEO: Big Banks  
To Steal Small Ones' Lunch**

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page 5

# U.S. Bancorp CEO: Big Banks To Steal Small Ones' Lunch

◆ By ALAN KLINE

SANTA BARBARA, Calif. — The top official at U.S. Bancorp is warning California community banks that their days may be numbered.

John F. Grundhofer, president and chief executive officer of the Minneapolis banking company, told a group of bank presidents here last week that big banks — like his — are expanding in California and aiming to steal business from community banks. As a result, he said, there will be "significantly fewer community banks in California" 10 years from now.

"It's getting tougher and tougher to make money in community banking," Mr. Grundhofer told the gathering at an annual conference for bank presidents. "Imagine how it will be as larger banks become more efficient."

Mr. Grundhofer's comments, similar to remarks he delivered to Oregon bankers in Portland last month, irked some of the community bankers attending.

John F. Burger, president and chief executive officer of Six Rivers National Bank in Eureka, said community banks have survived big-bank competition this long and he sees no reason why that wouldn't continue. In fact, many California community

banks enjoyed their most profitable year ever in 1997.

Since Mr. Grundhofer "started as a community banker, I'm surprised by his comments," said Mr. Burger. "I think he greatly underestimates community banks."

**"It's getting tougher and tougher to make money in community banking."**

John F. Grundhofer  
U.S. Bancorp



And Benjamin Hong, president and chief executive officer of \$161 million-asset Nara Bank in Los Angeles, is confident it will beat \$71 billion-asset U.S. Bank in a head-to-head competition for customers.

"I don't think he can forecast what's going to happen in my market," said Mr. Hong, whose bank caters mainly to Korean business owners.

To be sure, Mr. Grundhofer said, he believes some small banks — those that offer superior service to offset higher rates — will prosper in the changing banking environment.

"There will always be that segment of the business market that will want to be the big fish in the

small pond, even if it means paying a little more," Mr. Grundhofer said.

But his message was clear: Small banks will lose business customers to large banks simply because they cannot compete on rates or offer the same range of products.

Some in the audience conceded there is some truth in Mr. Grundhofer's viewpoint.

Richard E. Proudfit, president and chief executive officer of First State Bank of Southern California in Santa Fe Springs, said that, while customers often value relationships with their bankers, they are becoming increasingly cost-sensitive.

"If we're going to take on a big bank, we're going to lose," said Mr. Proudfit, whose institution has \$165 million of assets. "At some point, a price differential is going to force us to look at what an individual bank adds to a relationship."

Mr. Grundhofer's prediction may already be coming true for the smallest banks. A report released this month by the California Bankers Association, said banks with less than \$100 million of assets posted an average return on assets of 0.74% in the third quarter.

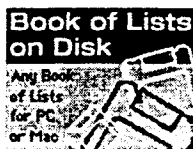
By contrast, banks with more than \$100 million of assets averaged 1.19%. ◇

## **Appendix "B"**

**Bank directors are paid well  
for taking on personal risk**

*The Business Journal*

- *Serving San Jose & Silicon Valley*  
December 9, 1996



December 9, 1996

## **Bank directors are paid well for taking on personal risk**

John F. Kane Special To The Business Journal

Serving on the board of directors of a bank can be a profitable job, but it also can be risky.

No matter what the compensation, one important fact emerges from a Business Journal survey of banking experts: Serving on the board of a bank or a savings and loan carries a lot more personal responsibility than most other corporate board memberships.

"It's the risk in terms of personal liability that makes being a bank director much different than being a director of, say, a small manufacturing firm," said Terry O'Hara, editor of the Community Banking section of American Banker magazine.

"It doesn't have to be fraud or corruption that puts the board member at risk," agreed Roberta Wagner, president of Directors Resource Group of Warrenton, Va. "If something goes wrong at a bank, directors can be charged with oversight and unsound management practices, and they can be sued individually."

The prime reason for this danger is that banks are much more tightly regulated than most other industries.

Following the bank and S&L failures in the 1980s capped by the Charles Keating/Lincoln Savings & Loan crash, Congress put pressure on federal and state regulatory agencies to keep a sharper eye on bank and S&L operations to avoid the billion-dollar bailouts paid for by

U.S. taxpayers.

Part of this pressure was to make board members personally liable for bank failures.

The thing that is scary to many board members and prospective members is that, in most cases, the regulatory agency doesn't have to go through due-process procedures.

"They can simply assess a fine," said Ms. Wagner. "And many directors who were sued simply settled rather than pay the legal fees necessary to fight the case in court."

In a survey of 2,000 banks and S&Ls by the American Association of Bank Directors in Bethesda, Md., nearly half of the respondents said directors had resigned during the past five years. Besides mergers, the leading reason given for those resignations was liability risk.

Among prospective directors who refused to accept nomination, potential liability and personal time constraints were the top reasons.

"The survey reflects the fact that, even as the banking industry has recovered from the losses suffered several years ago, banks still face the loss of qualified directors because of the fear of personal liability," said David Baris, executive director of AABD.

Richard Foster, a Michigan-based lawyer who defends small banks and their directors against shareholder and government lawsuits, said most directors don't realize the significance of their responsibility until it's too late.

"Most say they would not have joined the bank board if they'd known they were risking their personal assets," he said.

Ronald Reinartz of the Bank of Santa Clara noted that a lot of time is spent with prospective board members, advising them of the risks inherent in the position. The FDIC also publishes that information, he said.

The recent passage of Proposition 211, the frivolous-lawsuit initiative, "will ultimately provide additional protection for banks" from shareholder suits, Mr. Reinartz said.

As for the compensation that might make the

risk more acceptable, reports vary.

For example, the AABD survey reports that board compensation ranges from \$23,000 at banks with assets of \$1 billion to \$5 billion to an average of \$3,478 for banks with assets of less than \$50 million.

But Los Angeles-based executive search firm Korn/Ferry International tells a different story, placing the average compensation for U.S. bank directors at \$31,716 for approximately four weeks of work a year.

Non-officer board members at Bank of America, the state's largest, surpass even the Korn/Ferry averages. They receive a \$35,000 annual retainer for service; half of that sum is deferred into restricted stock-equivalent units.

In addition to the retainer, the head of the bank's auditing and examining committee receives \$15,000 and members get \$7,500. The retainer for other committee chairs is \$3,000. Non-officer directors receive \$1,200 for each day they attend board and committee meetings.

At the other end of the scale, directors at Heritage Bank of Commerce in San Jose receive no direct compensation at all. Instead, they are awarded stock options. Committee chairs qualify for options on 6,000 shares and other directors 5,000 shares over a three-year period.

At Comerica Bank-California, the third-largest in Silicon Valley, the 12 outside directors receive a \$10,000 annual retainer if they attend 75 percent of the meetings; an additional \$1,000 for each board meeting; and \$500 for each committee meeting. The trust committee meets monthly, and the audit, risk-management and public-responsibility committees meet quarterly, according to bank president J. Michael Fulton.

Banks of every size are anxious to attract the top people available to serve their shareholders. At BofA, the policy is to "seek a combination of active or former chief executive officers of major complex businesses, leading academics, and entrepreneurs, including women and ethnic minority individuals."

The strategy at Heritage Bank is to attract board

members of diversified experience who are still involved in their careers, according to CEO John Rossell.

"We do not want a clubby board of directors," Mr. Rossell said. "They need to get along, but do not have to be close personal friends."

John F. Kane is a freelance writer based in Belmont.

## **Appendix "C"**

### **Matrix Reflecting Various Governmental Definitions of the term "Immediate Family Member"**

*Prepared by Christopher Morrison  
&  
Murray Chanow*

*National Association of Federal Credit Unions  
(NAFCU)  
July 8, 1998*



Various Governmental Definitions of "immediate family member" (or "relative" when indicated). (July 8, 1998)

FAMILY MEMBERS		12 CFR Part 701 -- NCUA Rule on Immediate Family Member Definition																				
		Household members who maintain a single economic unit	United States Code (U.S.C.)																			
			Household members related by blood or marriage	Spouse of grandparent		Grandparent of Spouse	Spouse of grandparent	Any spouse of family listed	Any spouse of family listed		Foster parent	Any child who lives at home (including adults)										
Other	Niece					X																
Nephew						X																
First Cousin						X																
Fiancee																						
Great Uncle																						
Great Aunt																						
Uncle						X																
Aunt						X																
Spouse of Grandchild					X																	
Granddaughter		X			X																	
Grandson		X			X																	
Grandparent		X		X	X																	
Sister-inlaw				X	X	X																
Brother-inlaw				X	X	X																
Son-inlaw				X	X	X																
Daughter-inlaw				X	X	X																
Mother-inlaw					X	X																
Father-inlaw					X	X																
Stepsister		X			X	X																
Stepbrother		X			X	X																
Stepdaughter		X			X	X																
Stepson		X			X	X																
Foster Child		X	X																			
Stepmother		X		X	X	X																
Stepfather		X		X	X	X																
Dependent		X	X																			
Daughter		X	X		X	X																
Son		X	X		X	X																
Half Sister		X			X	X																
Half Brother		X			X	X																
Sister		X	X		X	X																
Brother		X	X		X	X																
Adoptive Parent					X																	
Father		X	X		X	X																
Mother		X	X		X	X																
Wife		X	X		X	X																
Husband		X	X		X	X																
		Congressional Rules																				
		Code of Federal Regulations (CFR)																				
		House Rule 51/Senate Rule 35--Gift Rule: Defines "Relative"																				
		42 CFR 411.351 -- Public Health -- Exclusions from Medicare and Limitations on Payments																				
		12 CFR 225.41 -- FED: Change in Bank Control, Transactions Requiring Prior Notice																				
		12 CFR 26.2 -- Comptroller of the Currency: Management Official Interlocks																				
		12 CFR 561.24 -- Office of Thrift Supervision																				
		20 CFR 416.1231 -- Employees Benefits -- Supplemental Security Income																				
		29 CFR 780.308 -- Labor -- Employment in Agriculture																				
		12 CFR 28.11 -- International Banking: Branches and Agencies of Foreign Banks																				
		12 CFR 215.2 -- FED: Loans by member banks to their Officers																				